

## Message Text

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ACTION IO-14

INFO OCT-01 ARA-10 ISO-00 CIAE-00 DODE-00 PM-05 H-01  
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02  
SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 DHA-02  
OES-07 EUR-12 /119 W

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R 182257Z AUG 77

FM USMISSION USUN NEW YORK

TO SECSTATE WASHDC 4952

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

AMEMBASSY NASSAU

AMEMBASSY PORT OF SPAIN

C O N F I D E N T I A L SECTION 1 OF 2 USUN 2656

E.O. 11652: GDS

TAGS: OVIP (YOUNG, ANDREW), EAID, ETRD, XL, XK, US

SUBJECT: AMBASSADOR YOUNG'S MEETING WITH THE PRESIDENT AND  
OTHER OFFICERS OF THE CARIBBEAN DEVELOPMENT BANK

1. BEGIN SUMMARY: DURING A MEETING ON AUGUST 16 WITH THE  
PRESIDENT AND OTHER OFFICERS OF THE CARIBBEAN DEVELOPMENT  
BANK (CDB), AMBASSADOR S YOUNG AND ORTIZ AND MEMBERS OF  
YOUNG'S PARTY DISCUSSED A RANGE OF ISSUES RELATED TO  
ECONOMIC DEVELOPMENT IN THE CARIBBEAN. CCD PRESIDENT DEMAS  
PRESENTED A PAPER ARGUING FOR THE UNTYING OF USAID SUPPORT  
FROM PROJECT LOANS AND DISCUSSED CARIBBEAN DEVELOPMENT  
PROBLEMS. HE ALSO SUGGESTED SEVERAL POSSIBILITIES FOR  
CLOSER COOPERATION AONG DONORS. END SUMMARY.

1. ON AUGUST 16 AMBASSADORS YOUNG AND ORTIZ,  
DEPUTY ASSISTANT SECRETARY SHELTON, AID LA  
ADMINISTRATOR VALDEZ, NSC INTERNATIONAL ECONOMICS  
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OFFICER HORMATS AND MESSRS. COOKS, STUMAN AND  
BRESLIN MET WITH CARIBBEAN DEVELOPMENT BANK (CDB)  
PRESIDENT DEMAS, VICE PRESIDENT NICHOLLS AND  
CRISPIN SORHAINDO, LEWIS CAMPBELL AND AL MASON IN BRIDGETOWN.

2. DEMAS OPENED THE MEETING BY BRINGING UP THE PAPER  
THEY HAD PREPARED FOR DISCUSSION (POUCHED TO DEPT.-SCHIELE

IO/UNP), THE MAIN POINT OF WHICH WAS TO ARGUE THAT USAID SUPPORT OF THE BANK BE UNTIED FROM PROJECT LOANS, GIVING THE BANK MORE DISCRETION OVER ITS USE. YOUNG SUGGESTED THAT, SINCE TIME WAS SHORT, THE MORE TECHNICAL DISCUSSION BE LEFT UNTIL LATER, AND THAT THE FOCUS BE ON OVERALL OBJECTIVES. HE POINTED OUT THAT THE PANAMA AGREEMENT WILL FOCUS INCREASING ATTENTION ON THE CARIBBEAN, THAT IT WAS THE FIRST FOREIGN POLICY VICTORY OF THE CARTER ADMINISTRATION. "WE WANT TO GO BACK TO WASHINGTON WITH A PLAN SAYING," 'THIS IS HOW YOU FOLLOW UP ON THAT POLITICAL AGREEMENT WITH A PROGRAM FOR INCREASED ECONOMIC INTEGRATION.' HE POINTED OUT THAT INCREASED ATTENTION TO THE CARIBBEAN FIT IN WITH US HUMAN RIGHTS POLICY, WITH SUPPORT OF DEMOCRATIC REGIMES, AND THAT DEMOCRATIC REGIMES, TO SURVIVE, REQUIRE ECONOMIC STABILITY. ACCEPTING YOUNG'S SUGGESTION, DEMAS SKETCHED OUT THE BANK'S ACTIVITIES. IT LENDS ONLY TO THE ENGLISH-SPEAKING CARIBBEAN WHERE HE IDENTIFIED BOTH LONG AND SHORT-RANGE PROBLEMS. LONG-RANGE PROBLEMS ARE STRUCTURAL; UNPRODUCTIVE AGRICULTURE, UNEMPLOYMENT, UNDEREMPLOYMENT, INCREASING INEQUALITIES IN DISTRIBUTION OF WEALTH. SHORT-TERM PROBLEMS HAVE BEEN CREATED OR WORSENERED BY THE WORLD ECONOMIC CRISIS OF RECENT YEARS, LEADING TO BOTH BALANCE OF PAYMENTS AND FISCAL DIFFICULTIES.

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3. IN DISCUSSING WHAT MIGHT BE DONE ABOUT THESE PROBLEMS, DEMAS ARGUED FOR THE NEED FOR PROGRAM LENDING RATHER THAN PROJECT LENDING, EXPLAINING THAT THE LATTER TENDS TO BE DRAWN DOWN VERY SLOWLY AND THUS HAS LITTLE OR NO IMMEDIATE IMPACT ON THE ECONOMY. VALDEZ POINTED OUT THAT AID DID PROGRAM LENDING IN THE PAST BUT BECAUSE OF CONGRESSIONAL OBJECTIONS HAD SHIFTED TO PROJECT LOANS. HORMATS ADDED THAT SECTORAL LENDING IN A SPECIFIC AREA, ESPECIALLY AGRICULTURE, IS SOMEWHAT MORE PALATABLE TO CONGRESS

4. DEMAS, STILL COMMENTING ON POTENTIAL SOLUTIONS TO SOME OF THE REGION'S PROBLEMS, MENTIONED THE FOOD PLAN OF THE CARIBBEAN COMMUNITY (CARICOM) WHICH PROPOSED TO DEAL WITH LIVESTOCK, FISHERIES, FRUITS AND VEGETABLES, AND GRAIN PRODUCTION. HE SAID THERE WAS TREMENDOUS POTENTIAL FOR INCREASED AGRICULTURAL PRODUCTION IN THE AREA. HE URGED THAT ASSISTANCE BE GEARED TO ENCOURAGE AND CEMENT REGIONAL INTEGRATION, SAID THAT THE BANK WAS CURRENTLY LENDING ON A REGIONAL BASIS IN THE AGRICULTURAL SECTOR, BUT WOULD LATER MOVE TO INDUSTRY WHERE THE GROUNDWORK IS NOW BEING LAID FOR COORDINATED

INDUSTRIAL DEVELOPMENT.

5. YOUNG EXPLAINED THAT HIS TEAM WAS NOT SELLING ANY-  
THING ON THIS TRIP, THAT WE WERE LOOKING TO SEE WHAT  
THE BEST ANSWERS WERE. HE OFFERED HIS OPINION THAT  
THERE WERE ADVANTAGES IN PLANS WHICH INCLUDED BOTH THE  
SPANISH-SPEAKING AND ENGLISH-SPEAKING COUNTRIES IN THE  
CARIBBEAN BASIN. HE CITED COSTA RICA AS THE MOST  
ARTICULATE VOICE OF DEMOCRACY IN THE BASIN, AND  
REFERRED TO VENEZUELA'S ASSISTANCE TO JAMAICA. HE  
POINTED OUT THAT THERE WERE ADVANTAGES IN JOINT  
ACTION BY DONORS -- CITING POLITICAL PROBLEMS TRINIDAD  
FACES IN ASSISTING JAMAICA AND TRINIDAD'S INTEREST IN  
BEING PART OF AN EFFORT THAT CANADA AND THE US MIGHT  
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BE INVOLVED IN. HE SAID THAT IN THE COMING WEEKS WE  
WOULD ASK ORTIZ MENA OF THE IDB TO PUT TOGETHER A  
GROUP OF TECHNICAL EXPERTS TO DISCUSS A CONSORTIUM  
ARRANGEMENT FOR THE CARIBBEAN. HE URGED THE CDB TO  
BECOME INVOLVED IN THOSE DISCUSSIONS.

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ACTION IO-14

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C O N F I D E N T I A L SECTION 2 OF 2 USUN 2656

6. YOUNG THEN REFERRED TO THE MEETING OF THE PRESIDENTS IN BOGOTA WHICH, HE SAID, BROKE THE DEAD-LOCK ON THE CANAL. "WE'RE SAYING TO CONGRESS: LOOK, THIS KIND OF COOPERATION IN THE REGION IS WORKING FOR THE FIRST TIME. NOW, WHAT KIND OF MONEY CAN YOU PUT BEHIND IT TO HELP IT DO OTHER THINGS;" YOUNG ALSO STRESSED AMERICAN DESIRE TO WORK THROUGH EXISTING INSTITUTIONS. SHELTON POINTED OUT THAT A MULTILATERAL APPROACH WOULD BE HELPFUL TO THE US ADMINISTRATION IN GETTING ALLOCATIONS FROM CONGRESS. (FOLLOWING YOUNG'S DEPARTURE, THE REST OF THE PARTY CONTINUED DISCUSSION.)

7. HORMATS SAID THE TEAM WAS TRYING TO DEVELOP A BETTER FOCUS ON THE PROBLEMS OF THE CARIBBEAN, BOTH SHORT AND LONG-TERM, AND HOW THE US COULD BEST ENCOURAGE DEVELOPMENT AND IMPROVED INTEGRATION IN THE AREA. DEMAS SAID THERE WAS PLENTY OF ROOM FOR CONSULTATION AND COORDINATION AMONG DONORS, AND LISTED THE US, CONFIDENTIAL

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UK, CANADA, VENEZUELA, TRINIDAD AND TOBAGO, AND THE INTERNATIONAL INSTITUTIONS -- CDB, WORLD BANK, IDB. HE SUGGESTED INCREASED CHANNELING OF UNDS THROUGH THE CDB. UP TO NOW, HE SAID, THE CDB HAS DONE ONLY PROJECT LENDING, BUT ITS CHARTER WOULD PERMIT IT TO DO PROGRAM LOANS. HE REFERRED TO THE "COMPROMISE" HORMATS HAD SUGGESTED OF SECTOR LOANS, AND SAID THE CDB COULD PLAY A ROLE IN SUCH LOANS. DEMAS ALSO POINTED OUT WHAT HE SAID WAS A POLITICAL ADVANTAGE TO DONOR COUNTRIES IN LENDING THROUGH AN INSTRITUTION LIKE THE CDB. LENDING CAN MAKE YOU A SCAPEGOAT, HE SAID. BUT THE CDB IS USED TO TAKING CRITICISM AND PROVIDES A USEFUL BUFFER TO A DONOR NATION. ORMATS REITERATED US DESIRE TO SEE ENGLISH AND SPANISH-SPEAKING COUNTRIES GET CLOSER TOGETHER IN THE CARIBBEAN.

8. DEMAS, ASKED ABOUT THE POSSIBILITIES OF CLOSER COOPERATION, LISTED FIVE WAYS ASSISTANCE COULD BE USED BY BORROWING COUNTRIES: (1) NATIONAL DEVELOPMENT PROJECTS; (2) MEDIUM-TERM (10-YEAR) PROGRAM OR SECTORAL LOANS; (E3) ECONOMIC INTETRATION AMONG CARICOM COUNTRIES; (4) ESTABLISHMENT OF COMMON SERVICES IN ECONOMIC PLANNING, ADMINISTRATION AND COMMUNICATION AMONG THE SMALLER ISLANDS OF THE EASTERN CARIBBEAN; AND (5) ECONOMIC COOPERATION BETWEEN ENGLISH AND SPANISH-SPEAKING COUNTRIES OF THE BASIN. HE WENT ON TO SUGGEST THAT THE LARGE SPANISH-SPEAKING DONOR COUNTRIES SHOULD COOPERATE THROUGH MULTILATERAL

CHANNELS RATHER THAN PROVIDE BILATERAL ASSISTANCE  
TO AVOID PROBLEMS ARISING OUT OF DISPARITY OF SIZE.  
THE SMALLER STATES, HE INSISTED, MUST STRENGTHEN  
THEMSELVES FIRST BEFORE ENTERING INTEGRATIVE ARRANGE-  
MENTS WITH THE SPANISH-SPEAKING COUNTRIES HE REFERRED  
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TO AS "GIANTS." ASKED BY EINAUDI ABOUT REACTION TO  
APPLICATIONS BY THE DOMINICAN REPUBLIC AND HAITI TO  
JOIN CARICOM, DEMAS SAID THAT THE NEXT CARICOM HEADS  
OF GOVERNMENT CONFERENCE WOULD TAKE UP A STUDY ON  
HAITI'S JOINING. IN RESPONSE TO HORMATS, DEMAS SAID THE  
CDB WOULD CERTAINLY BE INTERESED IN PARTICPATING IN  
A TECHNICAL MEETING TO DISCUSS POSSIBLE CONSORTIA  
ARRANGEMENTS FOR THE CARIBBEAN.

9. VALDEZ AND DEMAS THEN TURNED TO THE PAPER PREPARED  
BY CDB ON USAID SUPPORT OF THE BANK. DEMAS SAID THERE  
WERE TWO PRINCIPAL POINTS. ONE, THE PROBLEM IN  
RUNNING THE BANK BECAUSE OF THE NUMBER OF SPECIAL  
DEVELOPMENT PROJECGS, WHAT HE CALLED "PRE-PACKAGED"  
LOANS. TWO, HIS OBJECTION TO RESTRICTING LOANS TO ONLY  
THE LEASET-DEVELOPED COUNTRIES. ON THE FIRST PROBLEM,  
DEMAS SUGGESTED PUTTING ALL THE PRE-PACKAGED LOANS  
INTO THE SPECIAL DEVELOPMENT FUND, THE RESOURCES OF  
WHICH ARE LENT ON SOFT TERMS. ON THE SECOND PROBLEM,  
DEMAS POINTED OUT THAT SPECIAL ATTENTION TO THE  
LEAST-DEVELOPED COUNTRIES OF THE REGION WAS WRITTEN  
INTO THE BANK' CHARTER. VALDEZ EXPLAINED THAT AID  
WAS GIVING PRIMARY EMPHASIS TO THE POOREST COUNTRIES AND  
TO ASSISTING THE POOREST PEOPLE IN THE MORE DEVELOPED  
COUNTRIES. DEMAS SAID THAT THERE WERE MORE POOR PEOPLE  
IN THE MIDDLE-INCOME COUNTRIES OF JAMAICA, BARBADOS,  
GUYANA, AND THE BAHAMAS, THAN IN ALL THE LEAST-DEVELOPED  
COUNTRIES COMBINED. HE SAID THE BANK WOULD HAVE NO  
PROBLEM IN AID GUIDELINES DIRECTING AID TO THE POOR IN  
THE MID-INCOME COUNTRIES.

10. IN A FURTHER DEVELOPMENT OF HIS ARGUMENT, DEMAS  
REFERRED TO THE FREQUENTLY-MADE POINT THAT IT IS THE  
RESPONSIBILITY OF THE GOVERNMENT OF MID-INCOME  
COUNTRIES, AND NOT OF OUTSIDE DONORS, TO ASSIST THEIR  
POOR. HE SAID JAMAICA IS AN EXAMPLE OF A NATION TRYING  
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TO DISTRIBUTE INCOME EQUITABLY BUT THAT THE DISRUPTION,

BOTH POLITICAL AND ECONOMIC, INVOLVED IN SUCH AN ATTEMPT  
USUALLY PRODUCES A SITUATION IN WHICH MORE, RATHER THAN  
LESS, ASSISTANCE IS NEEDED. HORMATS ASKED DEMAS FOR HIS  
ANALYSIS OF JAMAICA'S CURRENT SITUATION. DEMAS SAID  
THERE WAS AN IMMEDIATE NEED FOR PROGRAM ASSISTANCE AND  
CITED OUR PL 480 CONTRIBUTION. HE ALSO AGREED THERE WAS  
A NEED FOR A CONSORTIUM OF DONORS. HE SAID JAMAICA  
WAS THE CDB'S MAJOR BORROWER OF HARD MONEY.  
YOUNG

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## Message Attributes

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**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
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**Status:** NATIVE  
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**TAGS:** OVIP, EAID, ETRD, XL, XK, US, CARIBBEAN DEVELOPMENT BANK, CDB, (YOUNG, ANDREW)  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/4f2d0358-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009